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JAN 23 1997

January 23, 1997

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, NW, Room 222
Washington, D. C. 20554

Re: Ex Parte Meeting -- CC Docket 96-98
Implementation of the Local Competition Provisions
of the Telecommunications Act of 1996 Reconsideration

Dear Mr. Caton:

On Thursday, January 23, 1997, Mr. Richard Clarke and I met with Mr. Sherille Ismail, Mr. David Konuch, and Ms. Anu Seam, of the CCB Competitive Pricing Division, to discuss the pricing of ILEC nonrecurring cost items. The attached presentation were used as the basis of the discussion.

Two (2) copies of this Notice are being filed with the Secretary of the FCC in accordance with Section 1.1206(a)(2) of the Commission's rules.

Sincerely,

A handwritten signature in cursive script that reads "Bruce K. Cox".

Attachment

cc: Mr. Ismail
Mr. Konuch
Ms. Seam

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PRICING OF ILEC NONRECURRING COST ITEMS

Overview

- Definition of cost categories: recurring vs. nonrecurring
- What costs incurred by the ILEC are eligible for recovery from CLECs as forward-looking economic costs
- What price structure should be used to recover these costs both efficiently, and in a competitively neutral manner
- What price structures and rates have been proposed by ILECs
- What rates have been negotiated or ordered
- What should the FCC do to ensure efficient, competitively neutral cost recovery

Definition of Cost Categories

- Classify costs by frequency with which they are incurred, and whether the benefits are recurring, or nonrecurring

		BENEFITS	
		Nonrecurring	Recurring
COSTS	Non-Recurring	<ul style="list-style-type: none"> Entry of orders into gateways 	<ul style="list-style-type: none"> Investments in loops, trunks, switches, etc. Scaling of OSSs Building of gateways
	Recurring or Periodic Non-Recurring		<ul style="list-style-type: none"> Operation of network Maintenance of loops, switches, trunks, etc. Operation of OSSs Operation of billing systems

Costs Eligible to be Recovered from CLECs?

- Forward-looking economic costs causally attributed to a particular efficient function — not booked or embedded costs
 - Costs that would be incurred by an efficient provider of the function in a multi-network environment
 - TSLRIC/TELRIC
 - Plus share of efficient joint and common costs
- Based on total demand for generic function
 - CLEC demand
 - ILEC demand
- CLECs should not bear costs incurred to accommodate current or interim ILEC inefficiencies
- Exclude all costs attributable to the ILEC's own retail operations

What Price Structure Should be Used?

		BENEFITS	
		Nonrecurring	Recurring
COSTS	Non-Recurring	Pay as you go — recovered in per-use charges for use of generic function or service	Capitalize costs and recover in recurring charges from all users of the generic function
	Recurring		Smoothed pay as you go — recovered in recurring charges for underlying network element or service

- All eligible costs must be recovered through a price structure that is efficient, nondiscriminatory and competitively neutral
- To ensure nondiscriminatory recovery, units of demand must be consistent across all uses (e.g., TSR/UNE) and all users (e.g., CLEC/LEC)

Prices/Structures Proposed by ILECs

ILECs have proposed that CLECs pay excessive charges for functions that do not incorporate efficient technology, or incorporate discriminatory practices that apply only to CLEC usage and not to the ILEC's own usage

- Charges to upgrade outdated equipment or software, or to develop software "translations" to permit routing of calls to CLEC OS, DA or maintenance platforms
- Switched loop order charges which assume inefficient manual special service design processes and costs
- Failure to assume use of efficient processes for cross-connecting unbundled loops carried on DLC to the CLEC's collocation space
- Charges for interim number portability in excess of permanent portability costs
- Requirements that NRCs be paid for multiple phantom functions when only a single function is (or need be) performed by the ILEC

Examples of Inappropriate NRCs Proposed by ILECs

- ILEC A's proposal that each CLEC pay \$33,668 for billing development in each Ameritech switch at which unbundled elements are purchased
- ILEC B's proposal that each CLEC-purchase of an unbundled loop be assessed for \$230 in NRCs
- ILEC C's proposed DS-0 cross-connect NRC of \$233
- ILEC D's proposed NRC for Remote Call Forwarding of \$43/customer
- ILEC E's proposal that NRCs for the migration of ILEC customers to CLEC service exceed NRCs for the reverse migration

Customer Migration Nonrecurring Charges

Telco	State	Total Service Resale	Unbundled Platform	Unbundled Loop	Loop Cross- Connect
Bell Atlantic	DC	\$5.00	\$5.00	\$5.00	
Bell Atlantic	PA	\$36.19	\$36.19	\$36.19	
Bell Atlantic	VA	\$20.21	\$20.21	\$20.21	
BellSouth	FL			\$98 / \$42	
PacTel	CA	\$0.00			
Southwestern	OK	\$5.00	\$5.00	\$5.00	
US West	WA	\$5.00	\$5.00	\$5.00	
GTE	IA	\$13.30			
SNET	CT	\$12.75			

Source: AT&T - ILEC Arbitration Orders

\$X / \$Y: per-order charge/per-item charge

Nonrecurring Charges

Telco	State	CLEC	Unbundled Loop	Loop Cross-Connect
Bell Atlantic	DC	MFS	\$51 / \$21	
Bell Atlantic	DE	MFS	\$37 / \$28	
Bell Atlantic	MD	MFS	\$47 / \$51.50	
Bell Atlantic	PA	MFS	\$37 / \$36	
Bell Atlantic	VA	MFS	\$44 / \$25	
BellSouth	FL	MFS	\$98 / \$43	\$15.20 / \$0.30
BellSouth	GA	MFS		\$115 / \$11.20
NYNEX	MA	MFS	\$51.48	
NYNEX	NY	MFS	\$58 / \$26	
US West	AZ	MFS	\$70.70 / \$20	
US West	CO	MFS	\$70	\$314.83
US West	OR	MFS	\$94.83	\$100
US West	WA	MFS	\$96.30	\$100

Source: Janney Montgomery Scott

\$X / \$Y: per-order charge/per-item charge

What Should the FCC Do?

- Establish rules setting maximum limits on the level of NRCs
 - For unbundled elements, require NRCs to reflect only the efficient forward-looking cost of the functions required to be performed
 - For service resale, limit NRCs to the equivalent tariffed end-user rate, less the appropriate avoided cost discount
 - Until accurate cost studies are available, rates should not exceed defined proxies
- Recognize that current UNE prices already incorporate OSS costs
- Significant benefits will result from a proactive policy to enforce economic NRCs
 - Customers will be able to make decisions on their choice of carrier and service bundle based on the underlying economics of the alternatives
 - Telecommunications usage will be stimulated
 - Competition will be stimulated
 - ILECs will receive appropriate incentives to develop efficient, modern multi-carrier networks and operations support systems